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1995/03/02



OFFICE OF THE SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

DIRECTOR OF NET ASSESSMENT

2 March 1995

MEMORANDUM FOR DISTRIBUTION

SUBJECT: 1995 Summer Study Report Entitled, "China in the Near Term"

I would like to emphasize that the attached report does not reflect the official views of this office, the Department of Defense, or the U. S. Government. The study group was composed of a number of experts on China drawn from academia and other research organizations. Arriving at a consensus on the future of China was not sought; rather, development of alternative, plausible scenarios for the next 5 years or so was the focus. This report most closely reflects the views of the chairman of the working group.

A handwritten signature in black ink, appearing to read "A. W. Marshall".

A. W. Marshall

Under Secretary of Defense (Policy)
1994 SUMMER STUDY

CHINA IN THE NEAR TERM

Organized by the
Director, Net Assessment

1 - 10 August 1994

Newport, Rhode Island

The following provides a summary of a Summer Study report conducted for the Under Secretary of Defense (Policy). The Summer Study, directed by Andrew W. Marshall and James G. Roche with the working group chaired by Ronald A. Morse, met from 1 through 10 August 1994 at the Naval War College, Newport, Rhode Island. This was the eighth in a series of summer studies undertaken to review fundamental issues and questions of importance to the defense planning process.

The working group's objective was to consider ways in which China might evolve over the near term and to examine the impact of this evolution on the region. The group was asked to devote particular attention to the potential for negative developments, especially those that might directly affect U.S. interests. They were also asked to identify indicators of movement toward these alternative futures.

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CHINA IN THE NEAR TERM

10 August 1991

STUDY GROUP PARTICIPANTS

The study group was diverse and represented generational and occupational differences. Considerable time was devoted to discussing the details of China's current leadership and social issues. The objective was to allow a full explanation of differing interpretations about China's near-term future and then to weight those evaluations in terms of plausible outcomes. China is the major uncertainty in Asia's future.

STUDY GROUP PARTICIPANTS

CHAIRMAN

Ronald Morse

University of Maryland at College Park

MEMBERS

Mike Brown

Tom Christiansen

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Long-Term Credit Bank Institute

Princeton University

Congressional Research Service

STUDY OBJECTIVES

This study examines scenarios for China following the death of Deng Xiaoping. It is an analysis of a China that has a fragmented political apparatus, has not made the transition to a market economy, and faces a serious succession crisis. The study had three primary objectives: to examine China as it is today with the issues influencing it in the near term; to estimate probabilities of scenario outcomes once Deng dies; and to document the significance of these various scenarios.

The study was conducted on the assumption that we wanted to capture the "Middle Kingdom"--China--view of the world. We were not tasked with estimating foreign policy options dealing with China.

China, as we all know, is a large and complex nation. Arriving at a study group consensus on the future of China was not sought. After careful deliberation, the group made the following observations:

- following Deng's death a collective leadership phase would prevail;
- no paramount leader would emerge during the transition phase;
- the post-Deng leadership collective would most likely not change Deng's emphasis on economic reform and limited political liberalization;
- there was a 50-50 chance that the transition would lead to a Soviet-style break-up of China; and
- that whatever scenario dominates in the future, all Chinas would be different from the present and all Chinas may challenge US interests.

STUDY OBJECTIVES

- 1) Identify and describe plausible scenarios for China over 5-7 years.
- 2) Identify indicators or signposts for change.
- 3) Suggest implications for the West

ASSUMPTIONS

Why China Deserves Serious Consideration

China, simply because of its size and location, presents a significant challenge to nations with a stake in Asia. It is now more of a consideration because of its uncertain future. Its vulnerabilities are: population and geographical size; a historical tendency to decentralized governance; the lack of a "civil society"-intermediary institutions for political action, labor organization and interest articulation; a narrow Communist party form of rule; and the costs of state enterprises and a large and costly public sector.

These conditions argue against the emergence of one strong leader in the year or two following Deng's death. Loyalties to Deng are currently based on decades of experience with revolutionary leaders. Deng combined administrative control and personal charisma to implement his policies and ensure that leaders could not use their own power base to challenge him. Leaders coming after Deng have influence in the bureaucratic, military, or economic areas, but they lack the broad support necessary to rule. At a minimum, only some combination of group leadership can hold the system together.

The study group did not exclude the possibility that one person might strive for ultimate power, but we believed that this effort was doomed to failure and would become a pathway to collapse. After considerable debate about individual Chinese leaders, we concluded that, rather than second guess who might emerge, it was better to understand the dynamics of leadership behavior more generally.

Two final points: (1) we assumed that the People's Liberation Army (PLA) preference in a leadership transition was for collective leadership because the PLA had more flexibility for exercising influence. Under rapid reform or disintegration, the PLA is likely to do less well; and (2) that Chinese leaders all have a strong nationalistic pride.

ASSUMPTIONS

- 1) The next seven years are critical.
- 2) Deng dies and no strong leader emerges.
- 3) Political system and society are under-institutionalized, difficult to manage tensions.
- 4) Center-periphery tensions grow.
- 5) Quest for great power international status.
- 6) Military goal: modernized force projection.
- 7) China has a sense of being victimized by foreign powers.

EXTERNAL EVENTS THAT COULD ALTER CHINA'S OPTIONS

The task of the study group was to assess the "internal" dynamics of China and evaluate the options that the Chinese leadership would face. While we were not tasked to evaluate external factors that could alter Chinese options, we did prepare a list of external events that need to be considered.

Most of the external issues listed here are touched on elsewhere in the report. Nevertheless, by way of explanation consider the first example--the possible implications of a "US strategic withdrawal from Asia." US withdrawal could trigger the following events: a Sino-Japanese arms race; Japan's decision to develop a nuclear weapons capability; Taiwan's decision to declare complete independence from China; an arms race in Southeast Asia; a breakdown in regional multilateral economic and security agreements; an increase in the PLA's role in politics; and an increase in Chinese nationalism.

Possible Alliances Against China

Japan recognizes the potential threat of China. Japan's policies and its strategies for regional alliances excluding China are an important research area. Will Korea, Vietnam, and Australia, for example, look to Japan in an alliance to counter Chinese hegemony?

EXTERNAL EVENTS THAT COULD ALTER CHINA'S OPTIONS

1. U.S. strategic withdrawal *from Asia*.
2. Nuclearization of Japan.
3. War on the Korean Peninsula.
4. Major oil disruption.
5. Taiwan declares independence.
6. Russia Far East secedes union.
7. Nuclear Korea.

The next several pages highlight a series of issues that either deserve further research or suggest trends in China that in one way or another will shape the outcomes of the scenarios examined. These issues—"Factors Making China's Future Uncertain"—indicate some of the background considerations against which the scenarios presented were developed.

FACTORS MAKING CHINA'S FUTURE UNCERTAIN

- WEAK GOVERNMENT MACROECONOMIC CONTROLS
- EXPLODING ENERGY AND RESOURCE DEMAND
- WEAK STATISTICAL AND INFORMATION CONTROLS
- LEADERSHIP IDEOLOGY INCONSISTENT WITH CAPABILITIES
- NEAR-TERM POLITICAL ISSUES OF SIGNIFICANT CONSEQUENCE
- HIGH POTENTIAL FOR REGIONAL CONFLICTS

CHINA'S PATCHWORK OF WEALTH

Creating Multiple Economic Chinas

China's growth rate, its ability to attract foreign investment and capitol, and its ambitious economic plans should not be underestimated. Nevertheless, the impact has been regionally disproportionate and goes counter to the socialist notion of economic equality and social responsibility. With a 100 million person strong floating migratory workforce (many say 200 million by the year 2000), subnational economic disparities, and uneven income distribution, China faces significant internal problems.

As the income distribution map here shows:

- no coastal province, except Hebei and Hainan, is below the national average.
- no interior province, except Heilongjiang and Jilin in the northeast and Xinjiang in the northwest, is **above the national average**.
- at the extreme, Beijing and Shanghai are more than twice the national average.

An Issue for the Future

Economic links to overseas Chinese raises the question of "greater China" and the long-term allegiance of tens of millions of overseas Chinese to mainland China.

CHINA'S PAVING WORK OF WEALTH

Per capita income in China in 1992 was \$1,300. As this map of the provinces and regions shows, most of the interior was considerably less.

MONGOLIA

MONGOLIA

XINJIANG

PAKISTAN

JIANGXI

NORTH KOREA

NEIMONGOL

JILIN

HEBEI

TAJUJIN

JIANGSU

SHANDONG

ANHUI

SHIJIANG

JIANGXI

HUBEI

HUNAN

GUANGDONG

TAIWAN

VIETNAM

YUNNAN

GUANGXI

HAIAN

LAOS

THAILAND

NEPAL

BHUTAN

INDIA

XIZANG (TIBET)

Per capita income more than twice the national average (more than \$2,600)

\$1,300 - \$2,600

\$650 - \$1,300

Less than half the national average (less than \$650)

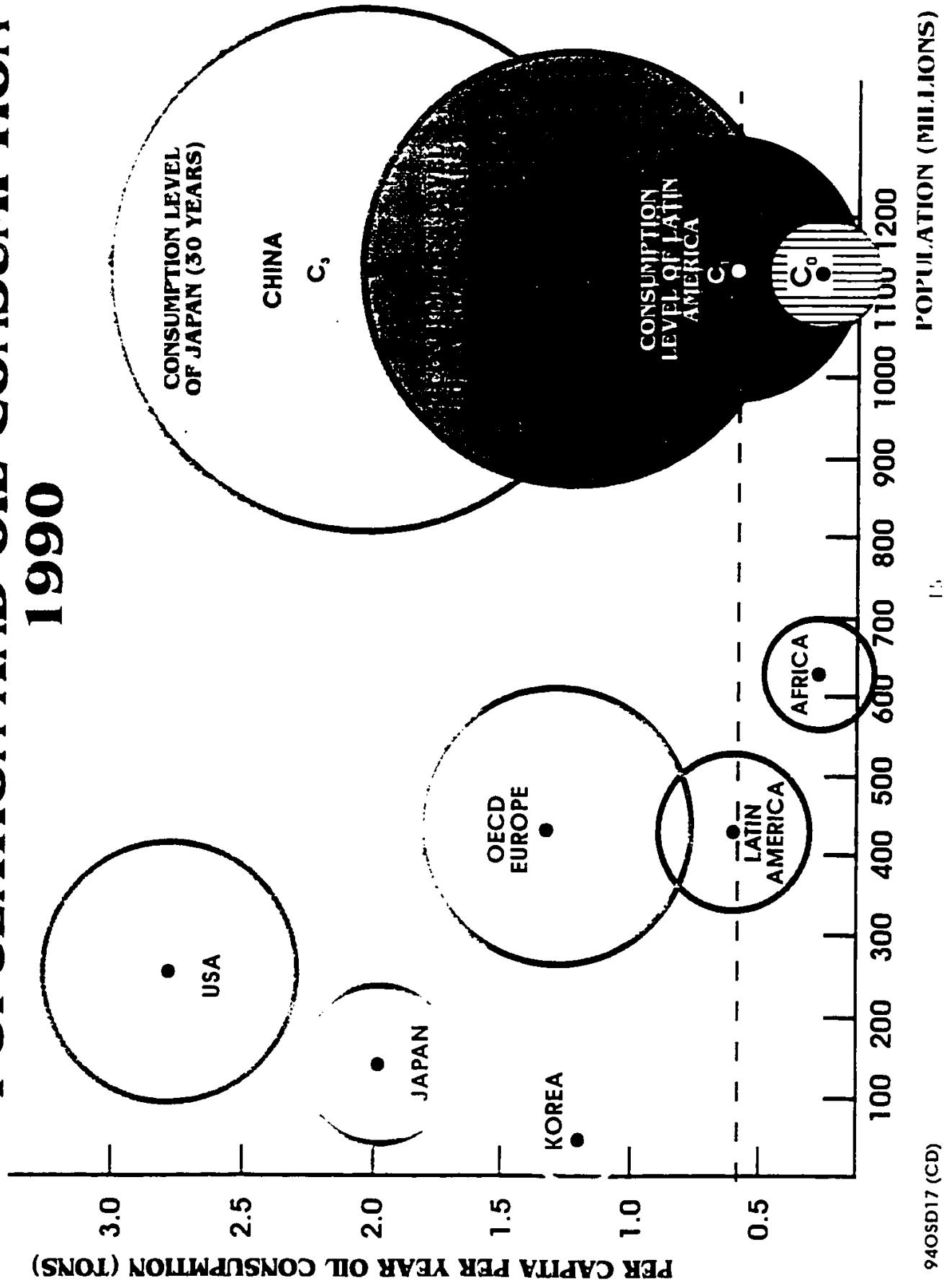
PIODI (CD) LAYER CHINAMAP + TYPE

POPULATION AND OIL CONSUMPTION

China's Growing Energy Crisis

Energy supply and its cost is the most pressing single constraint of an array of resource vulnerabilities China will face in the near term. As China's per capita energy demands grow with economic development, the cost, supply, and environmental consequences of energy demand will be a more and more important consideration. High growth, a rapidly expanding heavy manufacturing sector, and rapidly growing transportation requirements will necessitate increased energy imports. Under current conditions, by the year 2000, 40% of China's oil will come from the Middle East at an annual additional cost of \$6 billion. Domestic coal and oil supplies will not be adequate to meet domestic demand by 2000.

POPULATION AND OIL CONSUMPTION 1990

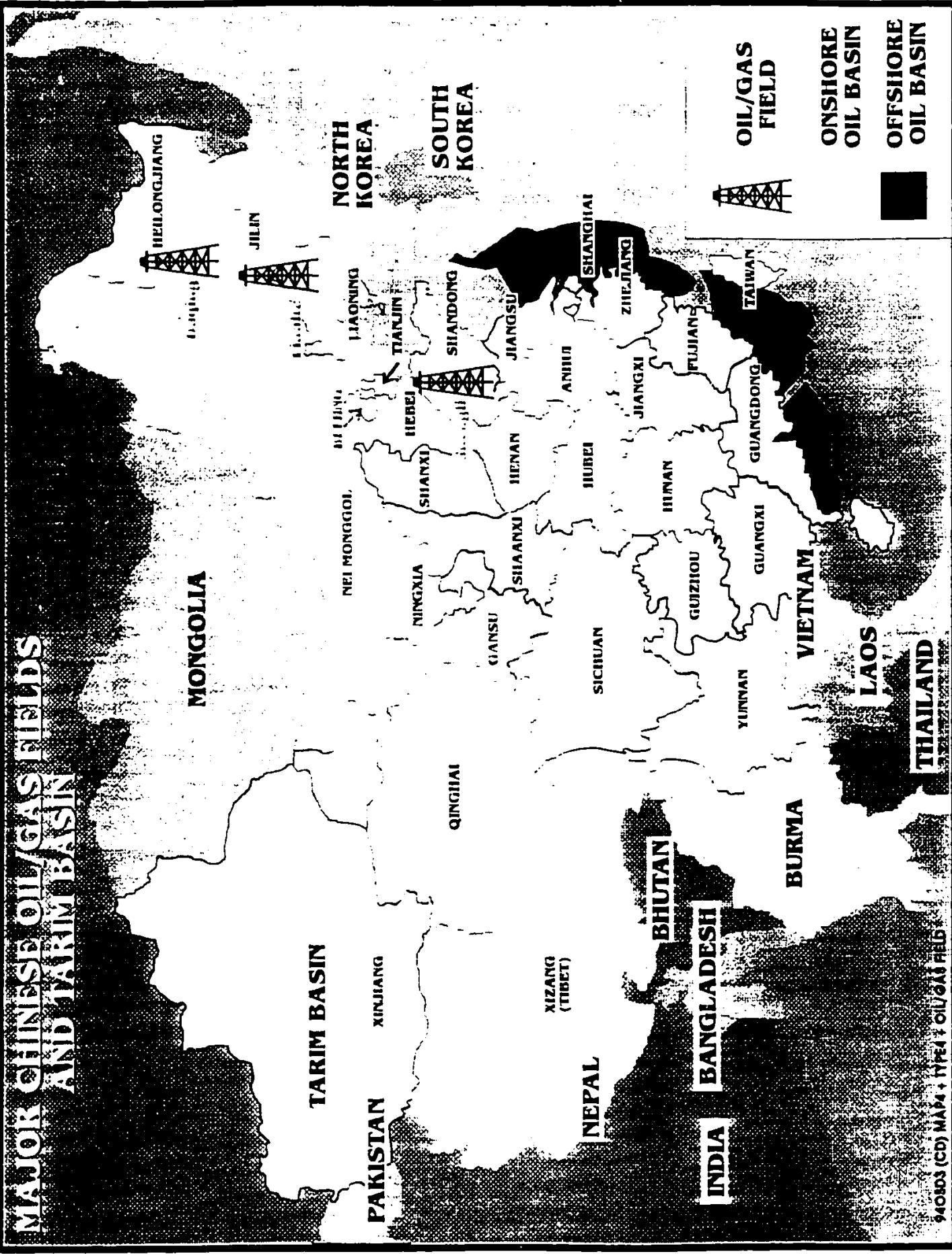


MAJOR CHINESE OIL/GAS FIELDS

China's oil reserves are all in areas that put it in potential conflict with other powers. In the northeast, issues with the Russian Far East and Korea are important. The Tarim Basin is in a volatile area with Kazakhstan and the coastal areas and the Spratly Islands are also areas of contention.

To meet its energy requirements, China will be forced to develop a blue water navy and bargain with Middle East oil producing nations like Iran.

MAJOR CHINASIA OIL/GAS FIELDS



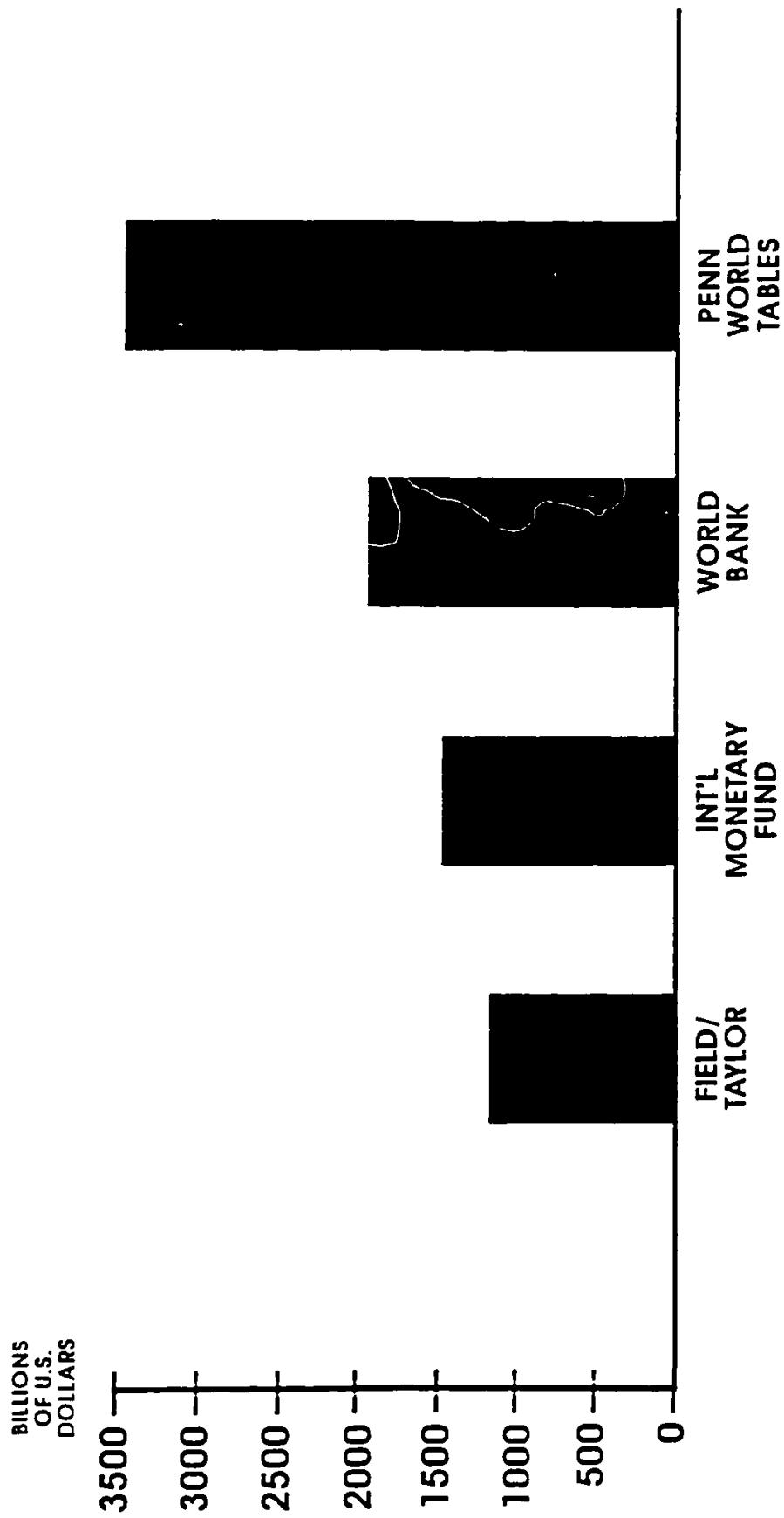
ALTERNATIVE ESTIMATES OF CHINA'S GROSS DOMESTIC PRODUCT (1991)

Lack of Data and Statistical Controls

The misreporting of economic statistics by local governments and enterprises in China has become a major problem in assessing China's economic policies. The problem is highlighted in the chart on China's GDP showing widely varying estimates by international organizations and economists. The lack of information control hampers industrial planning.

Common to all socialist countries, China has a growing fiscal deficit (9.5 billion yen in 1992--3.8% of GNP). This is caused by heavy subsidies to cover losses incurred by state enterprises, inappropriate government pricing policies, expenditures for state officials, and the redemption of national and foreign bonds.

ALTERNATIVE ESTIMATES OF CHINA'S
GROSS DOMESTIC PRODUCT (1991)
BILLION CURRENT DOLLARS

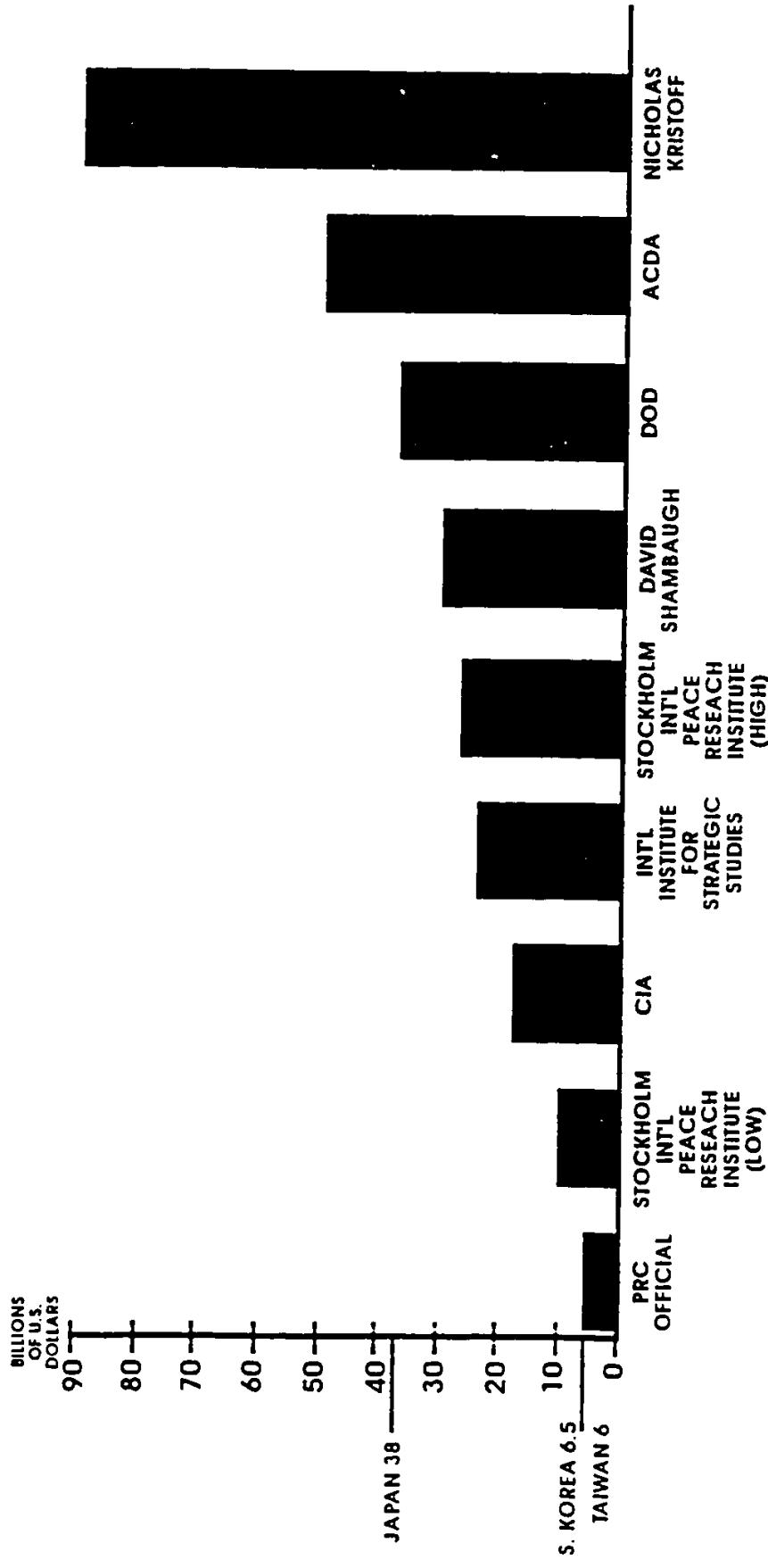


COMPARATIVE WESTERN ANALYSES OF CHINESE DEFENSE BUDGET

Another Statistical Uncertainty

Chinese defense spending has been significant since 1987, but the open source data on the intent and use of defense resources is deficient. Opinions vary about how to measure Chinese spending (see next page). This is another area for further research.

COMPARATIVE WESTERN ANALYSES OF CHINESE DEFENSE BUDGET



POST-DENG CHINESE LEADERSHIP MINDSET

Post-Deng Xiaoping China

Deng Xiaoping's power has been absolute and strong. It has been a personalized style of leadership remarkably successful in attaining China's goals of economic reform, modest political change, and international respect.

But Deng has been less successful with the details: the process of political succession is uncertain, fiscal, banking, and other economic reforms are incomplete, and the balance of center-provincial controls is still unresolved.

The study group felt that for these and other reasons, China is up for grabs once Deng passes away. There is no apparent internal balance of political forces and Deng's death will create a political vacuum for both conservatives and reformers to move in. Even so, all players will want to avoid chaos, avoid being seen as weak; and all will want to protect their personal and family/associates' benefits. Factors shaping the post-Deng transition will be:

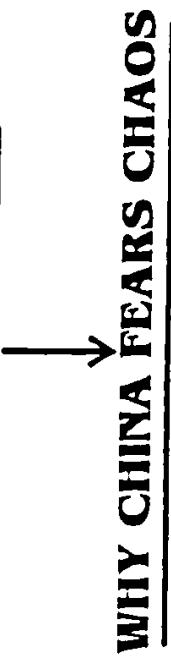
- the stake the leaders have in continuing the current situation;
- the desire to avoid bloody leadership struggles like the Cultural Revolution; and
- the degree to which a faceless "collective" leadership serves a common interest.

Ideology

The leadership appears bound by a shared sense that the most important goal is economic, political, and military power for China. The debate is over the methods to achieve that goal. They want to avoid a divided China--the Warlord Era, the excesses of the Cultural Revolution, and the break-up of the Soviet Union are negative lessons of how weakness evolves out of chaos. All current leaders take the "state" as the unit of political analysis--not the region or a global presence. Economic growth might not be a zero-sum game, but they see military and political power in zero-sum terms.

POST-DENG CHINESE LEADERSHIP MINDSET

SEARCH FOR A STABLE POLITICAL ORDER



- Warlordism

- USSR

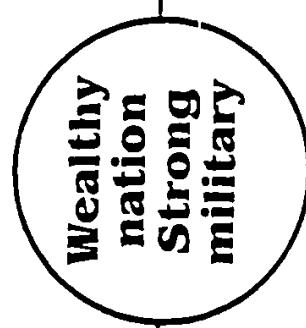
- Gorbachev destroyed Socialism

- Cultural Revolution

Reject new (Soviet) thinking

MODERNIZATION OF ECONOMY FIRST

"STATE" STILL UNIT OF ANALYSIS



China as only authentic
great power in Asia

Chinese Sovereignty
highest priority

Goal: China Treated as
Great Power

KEY ISSUES IN THE NEAR TERM

Time Lines

'The issues on the opposite page will require decisions by the leadership during the near term. 'The succession struggle in North Korea is already a factor. 'The reversion of Hong Kong in 1997 and how that is managed politically will send a signal about China's long-term intentions. 'The issue of Taiwan-China relations is always central to America's relations with China.

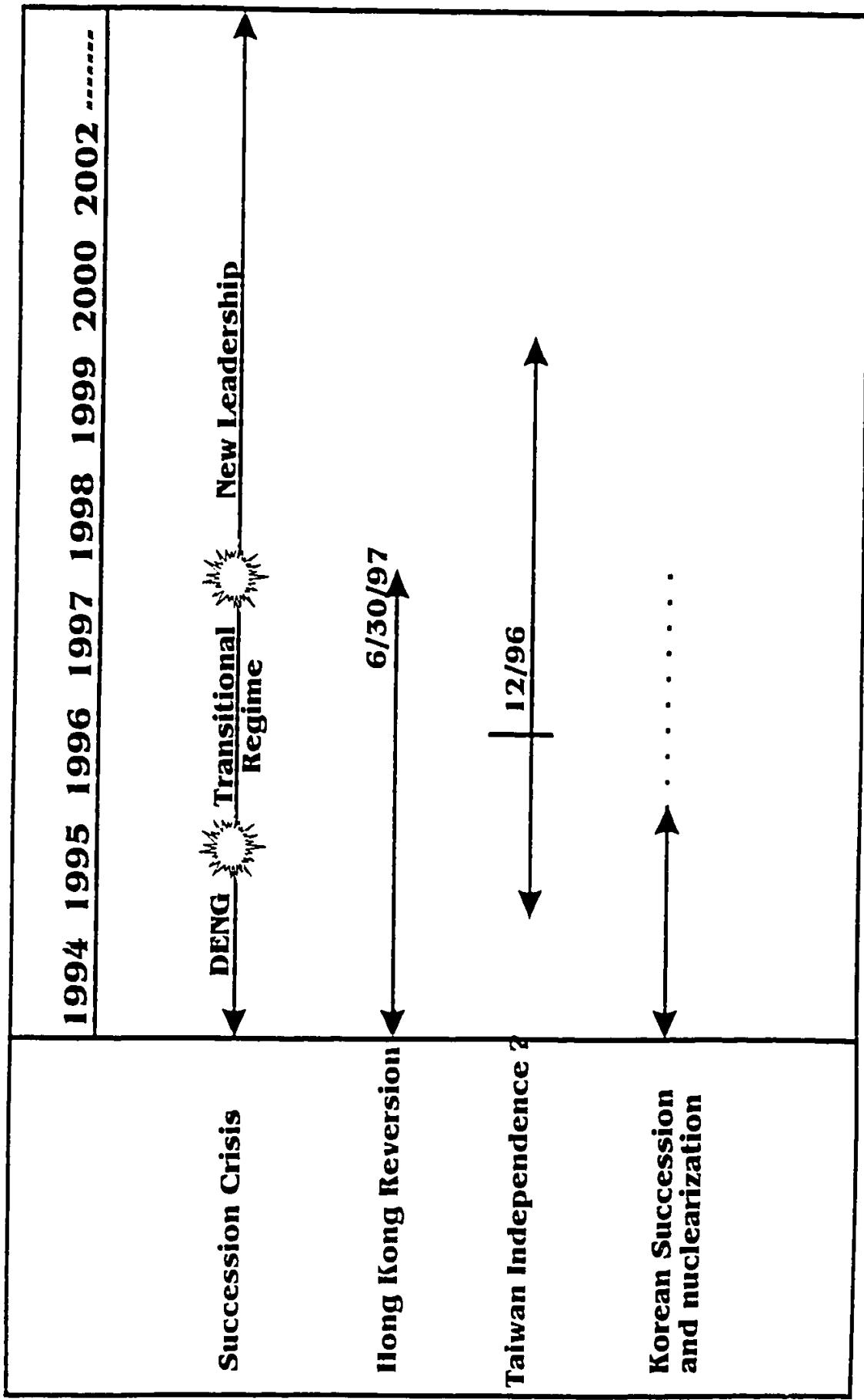
The Succession Issue

'The historical record is clear: leadership transitions in China are likely to be violent and drawn out. 'The emergence of Mao Zedong (1947-1954) and the comeback of Deng Xiaoping (1978-1983) were periods of uncertainty. Leaders after Deng will most likely be technocrats with a stake in economic reform. They will have few differences on foreign policy issues and they will also have fairly narrow policy interests. They realize that the Chinese people are less tolerant of political or military ruthlessness and that China is too complex to manage in earlier more centralized ways.

Communist Systems in Transition

'The lessons of the USSR, Hungary, and the post-Soviet states suggest that maintaining tight Communist party control over society while relaxing management of the economy creates regime instability.

KEY ISSUES IN THE NEAR TERM



THE GEOGRAPHY OF CRISES POINTS

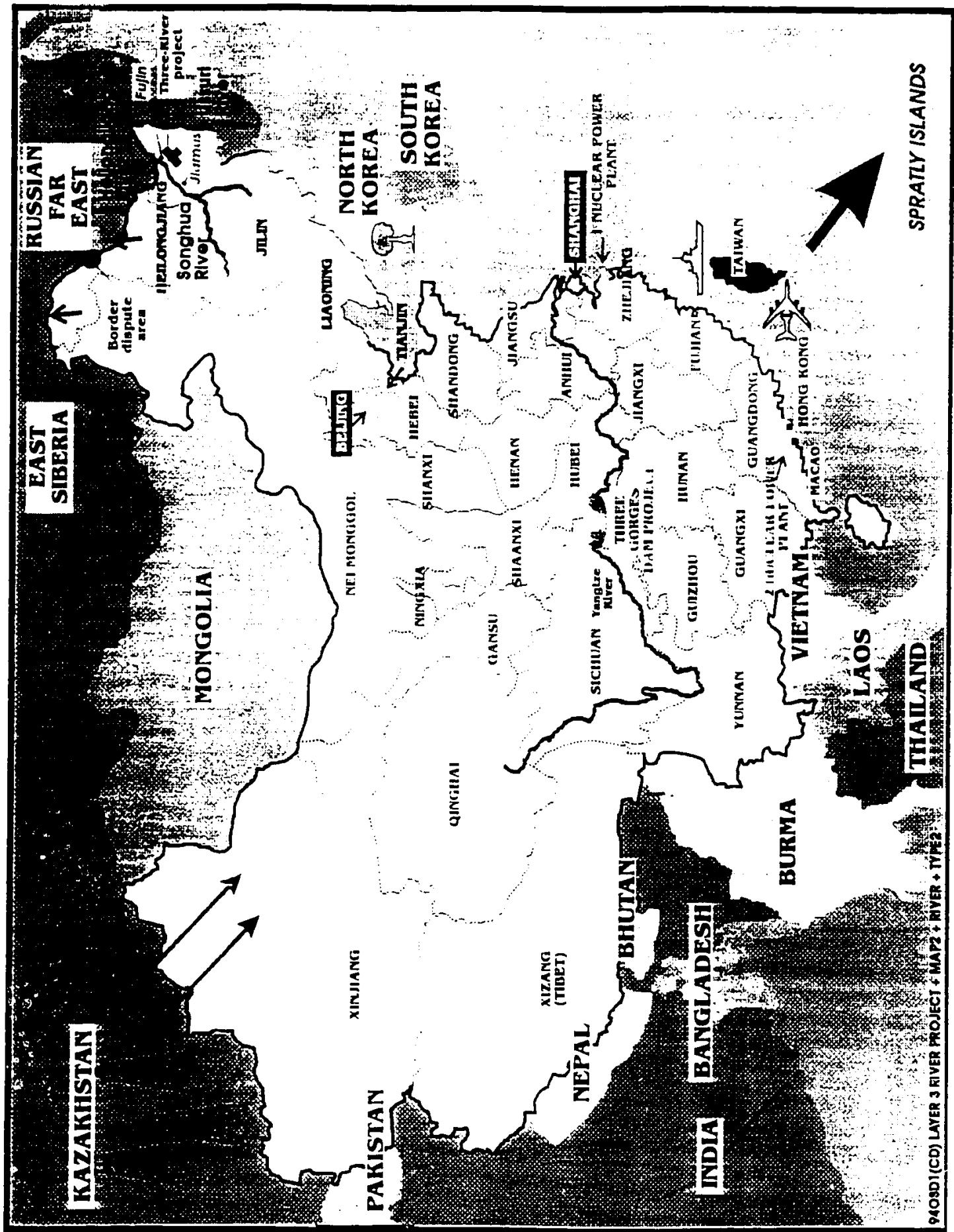
Areas to Watch

An aggressive, resource hungry China alongside a resource rich, but fragmenting Russia leads to border problems. For example, in Xinjiang, Muslim separatists on both sides of the Sino-Russian border have created problems. Ethnic Chinese account for only 38% of the 16 million, mostly Turkic-speaking Muslims in the area. Kazakhstan, with 17.2 million people and an extensive privatization plan of its own, has 15 million barrels of oil and 86 trillion cubic feet of natural gas. In 1993, it accounted for 5.8% of the oil and 21% of the coal extracted in the former Soviet Union. The area is rich in gold and other metals as well.

Major project failures in China could also create regime instability. There have already been problems at the nuclear power plant near Hong Kong. The Three Gorges Project has vast social and environmental implications. Heilongjiang has large state enterprises that must be made efficient and border disputes create a potential for confrontation. Tibet could seek independence.

Issue for the Future

Moscow sees China as a regional rival with a large population. Where interests meet, in Central Asia, China and Russia are in competition.



SCENARIOS FOR CHINA'S FUTURE

Post-Deng Leadership Scenarios

'The group believed that there was a 50/50 chance that China would disintegrate under a post-Deng diffused leadership and internal conflict. Power in general will gravitate away from the center.

The linear future, perhaps closest to the present situation, is only 30% likely. 'The liberal reform scenario, the one that Western powers hope for, is the least likely according to the study group estimates.

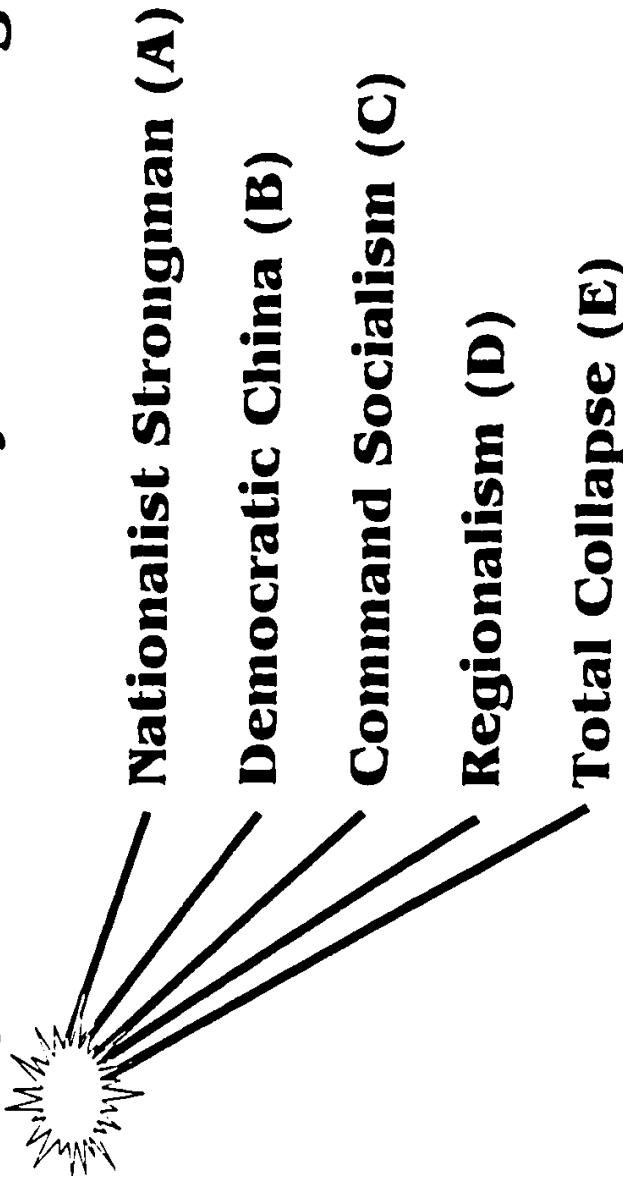
The study group focused on three (A, D, E) sub-scenarios under the disintegration case.

Alternative Considerations

'The group considered the "muddle through" case in which pieces of all three scenarios might mix in their own way. But for the sake of analysis and to force policy clarity, we felt more could be learned from specific scenario differentiation. Also, the scenarios as presented here are more useful in anticipating the international (foreign policy and military) security threats resulting from differing paths for China.

SCENARIOS FOR CHINA'S FUTURE

- I Linear Future (most likely to 30% of the group)**
- II Liberal Reform (most likely to 20% of group)**
- III Disintegration (most likely to 50% of group)**



SCENARIO I: LINEAR FUTURE

The Linear future scenario evolves because:

- the post-Deng collective leadership holds together.
- the PLA and the security apparatus support the collective leadership.
- key leaders do not go all out for a predominant leadership because they value regime survival.
- economic growth and social stability are considered the primary policy objective.

SCENARIO I: LINEAR FUTURE

Leadership Mindset:

- Domestic
 - Stability and Communist Party control paramount
 - Collective leadership: perception of weakness avoided
 - Limited political reforms and continued arrests
- Foreign Policy
 - Military force is useful and necessary
 - Won't seek fights, won't avoid fights
 - Dissatisfied with China's international posture

SCENARIO I: LINEAR FUTURE

Military Doctrine

American high-tech military performance in operation DISASTER STORM has been taken as the new model for Chinese modernization. Chinese military officials believe the present gap in their capabilities is temporary and the long-term goal is to be a global military peer of the United States.

SCENARIO I: LINEAR FUTURE

- Military Doctrine: fight high-tech local wars.
- Capabilities
 - Real growth in military budget
 - Development of blue water navy
 - Continued nuclear modernization (Mobile ICBMs, SSBNs, Theater nuclear weapons)
 - Foreign technology transfer
 - Search for arms sales markets

SCENARIO I: LINEAR FUTURE:

Does China Fit the Asian Model of Economic Development

- Yes, in the sense that as in Japan, South Korea and Taiwan, economics has dominated politics and the center has dominated the periphery. One lesson of Asian late-comer development that Chinese leaders have learned is that you can have the market working for development and still maintain an authoritarian political system.
- No, because China has not managed the issues of inflation, income equity, and social unrest as well as the other Asian nations. While the Chinese leadership seeks to emulate the Singapore/Japan/Korea pattern of modernization, China has not demonstrated the same degree of institutional capacity.

Hybrid Nation: China's Vulnerabilities

In addition to transition leadership problems, China has new elites (business, student, professional) that operate outside the state apparatus and the Communist Party has less control over workers and peasants because of urbanization, migration, and new channels of communications.

SCENARIO I: LINEAR FUTURE

Social Trends:

- Increased economic inequality and corruption
- Crackdowns on economic protests

Economic Trends:

- Mixed planned/market economy
- No rapid privatization of state enterprises
- Major project difficulties (Three Gorges)
- Foreign Direct Investment continues, but slows
- Some state enterprises closed

LINEAR FUTURE:

In 1992, China accounted for 40% of North Korea's imports and took 15% of its exports. The group believed that China prefers American cooperation in lessening the problem of a crisis in North Korea.

Linear Future Scenario: Beyond the Near Term

Beyond the near term, this scenario leads to:

- China's inability to deal with systemic instability leading to political repression, cycles of boom and bust, and social unrest.
- China would be unprepared to respond constructively to domestic and foreign conflicts.

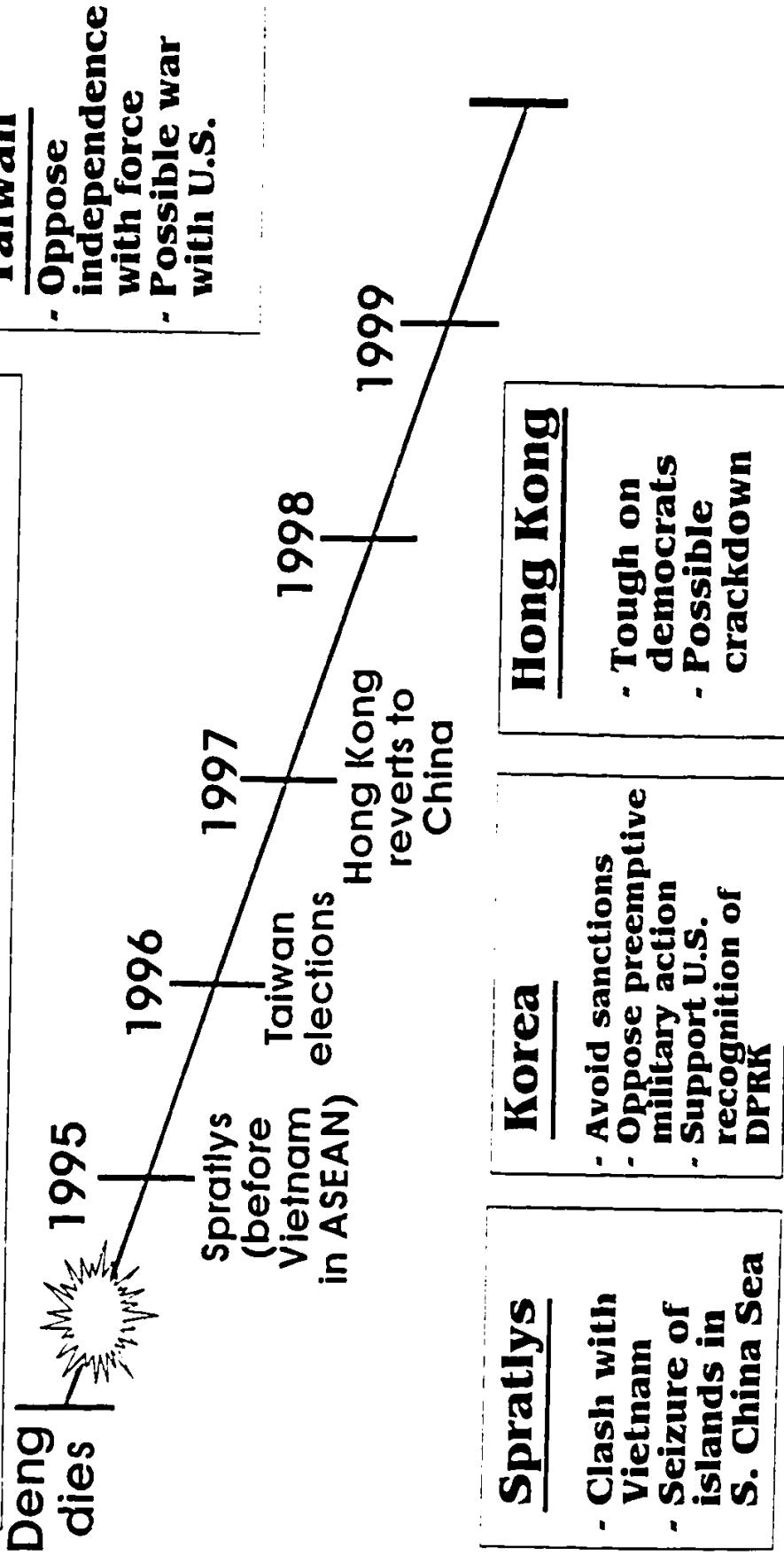
What Would Prevent This Scenario?

- leadership conflict
- unchecked inflation and economic uncertainty

Bottom Line:

- Improved power projection capability
- More assertive as power increases
- Continued avoidance of formal regional security agreements

LINEAR FUTURE



SCENARIO II: LIBERAL REFORM

The Reform China Scenario?

Only 20% of the study group felt that this near-term, broad-based reform scenario was likely. Reform would be consistent with US interests because:

- a radical reform coalition wins out over conservative reformers;
- the 1989 Tiananmen democracy crackdown would be criticized and conservatives are delegitimized; (Tiananmen can be an important political trend indicator because how it is viewed indicates political preference. There are various views on the incident--that it was useful in strengthening stability; that it was only important to intellectuals; and that it was the last successful political repression in China.)
- political reform is judged necessary to keep the Communist Party in power; and
- provincial leaders, security forces, and key sectors of the PLA support the new leadership.

Long-Term Implications

Economic growth and expanding resources for political modernization, technology transfer, and the development of dual-use technologies, are good if one assumes a confident, less nationalistic Chinese leadership. That may not be the case. This scenario leads to a powerful China with an expanding array of military assets.

SCENARIO II: LIBERAL REFORM

Leadership Mindset: domestic:

- political reform essential for legitimacy
- political reform essential for economic development and innovation

foreign policy:

- economics dominates foreign policy
- more faith in multilateralism
- downplaying of military force
- non-provocative international environment

Military:

doctrine: high-tech local wars capabilities:

- greater willingness to accept arms control constraints on capabilities
- nuclear doctrine
 - .. minimum deterrence
- rising civilian control over security policy
- military budget transparency

SCENARIO II: LIBERAL REFORM (Continued)

China, following the "Japan development model," does all the right things:

- incomes grow
- popular support for government increases
- stability is improved
- China heads for big (economic) power status

SCENARIO II: LIBERAL REFORM

Social Trends:

- Significant social dislocation and **stress**, but **localized**
- new social security framework **cushions** uncertainties

Economic Trends:

- sustained high growth
- new economic strategy introduced
- state enterprise reform
- inflation cools down

LIBERAL REFORM

"The "bottom line" is the kind of China that the United States believes it wants.

Beyond 2000:

-- China becomes a **non-threatening superpower in the world community**.

A Note of Caution:

- leadership scenario change could still mean a return to an authoritarian regime
- success could fuel a sense of great power ambition
- success means that China has greatly increased ability to develop science and technology capabilities and weapons systems

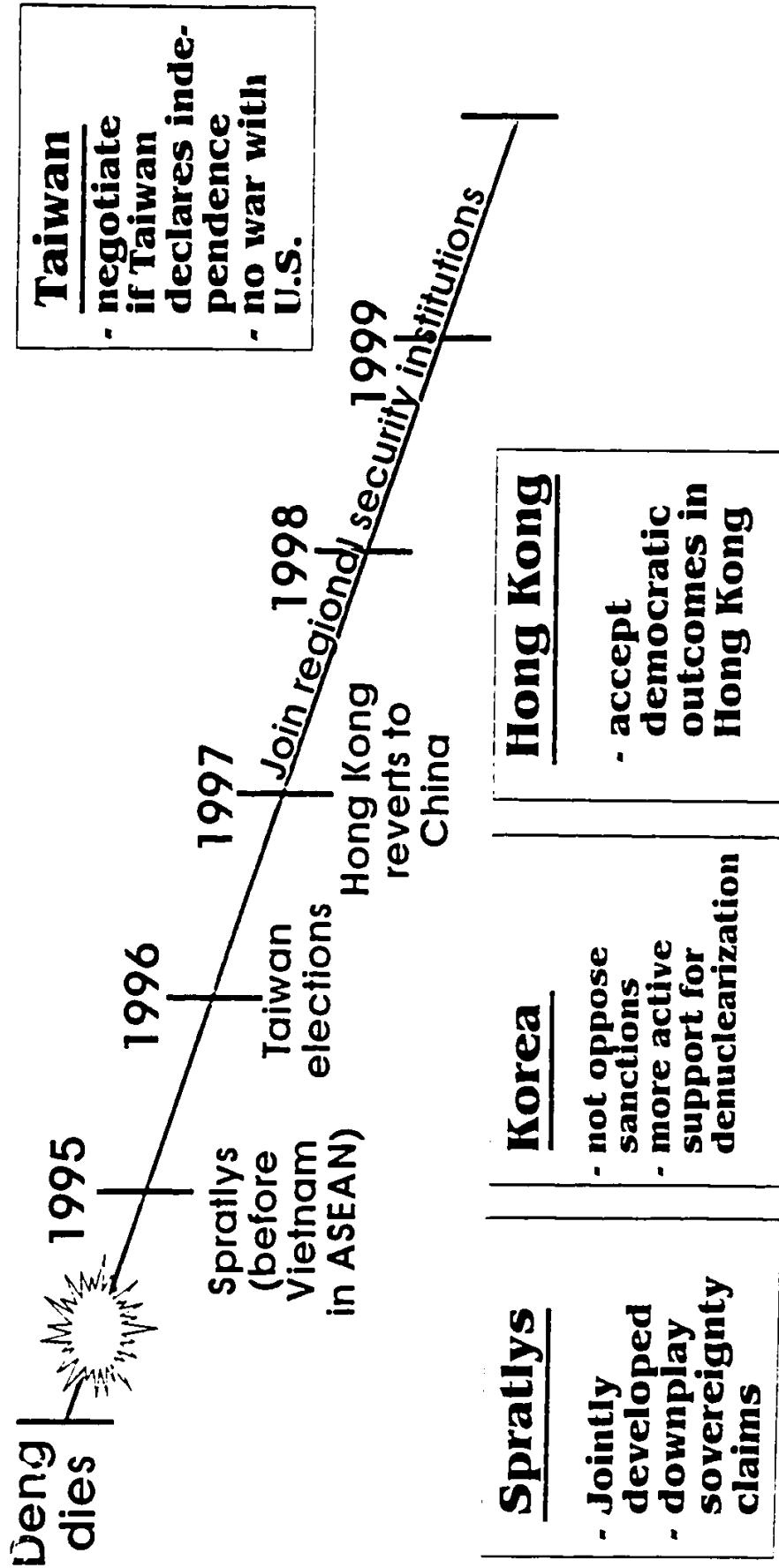
What could Prevent This Scenario?

- economic collapse
- popular expectations unmet by political reform
- the PLA and conservatives oppose political reform

Bottom Line:

LIBERAL REFORM

- less threatening, more cooperative on regional security
- can fight; will try to avoid fighting
- improved power projection



(PHASE I) - SCENARIO III: DISINTEGRATION

Disintegration: Fifty percent of the study group felt that some form of break-up was likely.

What leads to this outcome?

- unresolved factionalism at the political center
- institutional power bases are mobilized
- leaders pursue personal power
- factions are unsuccessful in building a dominant power base
- policy paralysis is caused by undermining each other's policies
- center loses control over the instruments of economic, political and social control.

(Phase 1) - SCENARIO III: DISINTEGRATION

Major Implications of Disintegration Scenarios

- Likely emergence of aggressive nationalist strongman
- Likely major constitutional changes in government

Leadership Mindset: domestic:

- Mutual distrust - succession gridlock
- Zero sum views of power/resources
- Strong regional identities
- Domestic sights override foreign policy

Trigger for internal break-up

- Alienation of provinces
- Splintering military control

Indicators

- Formation of provincial coalitions
- Provinces withhold taxes
- End of military region command shuffles

DISINTEGRATION--SUB-SCENARIOS

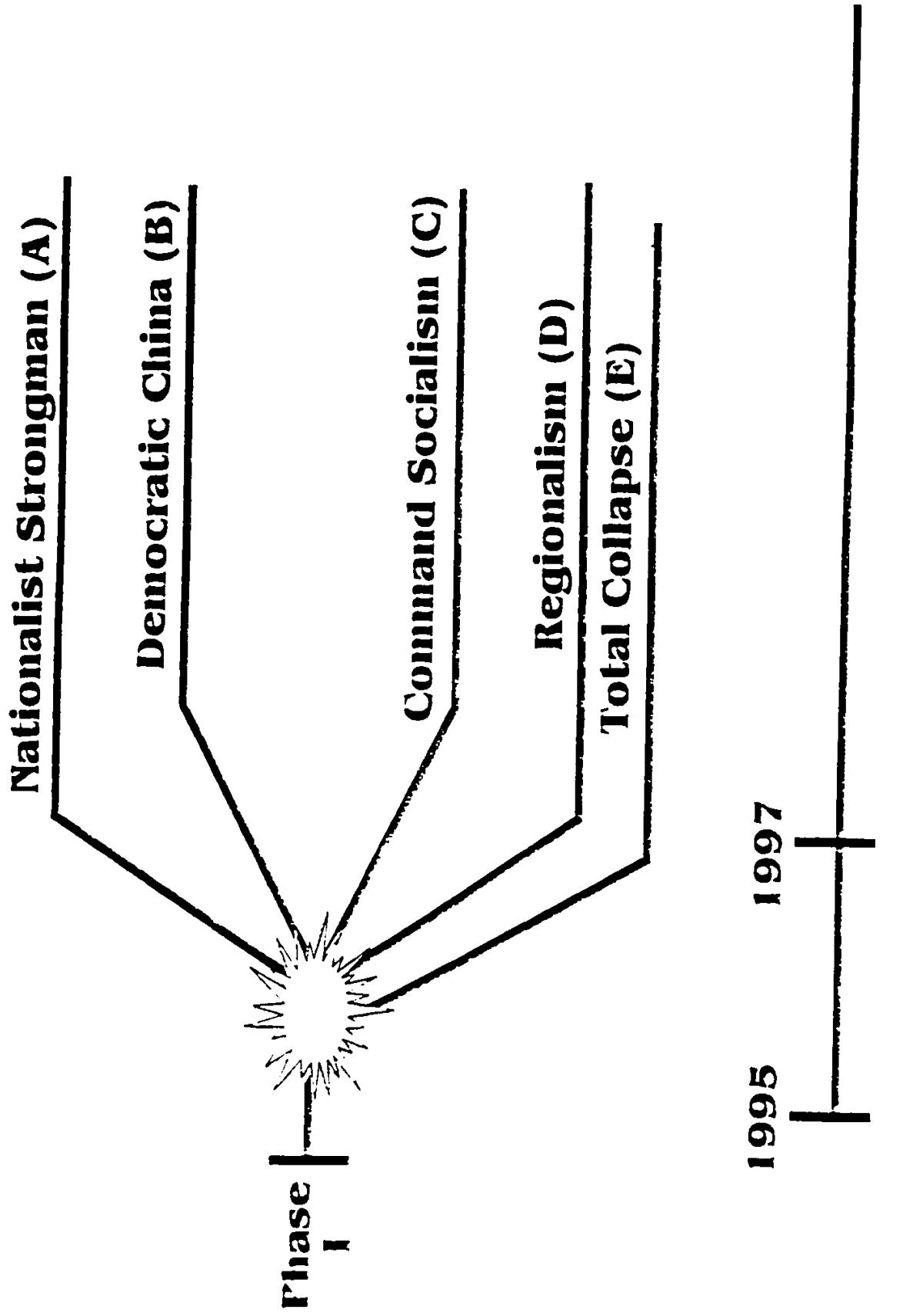
The Next Phase

The study group examined five disintegration sub-scenarios, but only three (A, D, and E) will be discussed here in detail. Sub-scenarios B and C are not examined because their outcomes did not differ significantly from the "Linear Future" and "Liberal Reform" scenarios discussed earlier. This does not mean, however, that "Democratic China" and "Command Socialism" are identical to the two earlier scenarios.

Democratic China is non-communist and has the support of both the PLA and the security apparatus. It happens as the result of widespread confusion and PLA recognition that it could not resist popular demands for change. The "bottom line" is constructive foreign engagement.

Command Socialism is the "paper tiger" sub-scenario. It falls between Linear Future and hyper-nationalism--it is rhetorically aggressive, but relatively weak. The PLA blocks conservative communist factions. The "bottom line," social stability, is achieved at the cost of high-level economic growth. China has power projection capabilities, but is cooperative on regional security.

DISINTEGRATION • SUB-SCENARIOS



SUB-SCENARIO III: NATIONALIST STRONGMAN (Λ)

How "Nationalist Strongman" comes to pass:

- there is unresolved factionalism at the center.
- fearing disintegration, the PLA turns to a popular leader.

SUB-SCENARIO III: NATIONALIST STRONGMAN (A)

Leadership Mindset:

- **Domestic**
 - Non-Communist leader emerges with mass support, acquiescence of PLA and security apparatus
 - No tolerance for elite dissent
 - Politics zero sum
- **Foreign Policy**
 - Ilan Chauvinism
 - Greater China nationalism
 - Irredentist claims
 - Anti-American Line (including Japan)



SUB-SCENARIO III: NATIONALIST STRONGMAN

Military:

doctrine: Protracted local wars
"beyond the gates"
capabilities:

- Large increase in military expenditures
- Blue water navy
- Amphibious forces
- Air-mobile rapid reaction forces
- Attempt to develop nuclear warfighting capability
- Increase in ground forces

Social Trends:

- Suppress dissent
- Patriotic campaigns

Economic Trends:

- Economic mercantilist
- Economic growth serves military power

NATIONALIST STRONGMAN

The issue of Taiwan's independence and America's involvement in that process make this scenario important. Japan-US differences over security could also come into play around the Taiwan sovereignty issue. Despite recent progress between China and Taiwan on trade cooperation and the settlement of disputes over immigration and fisheries, the question of Taiwan's future sovereignty is still an issue. China views Taiwan as a renegade province.

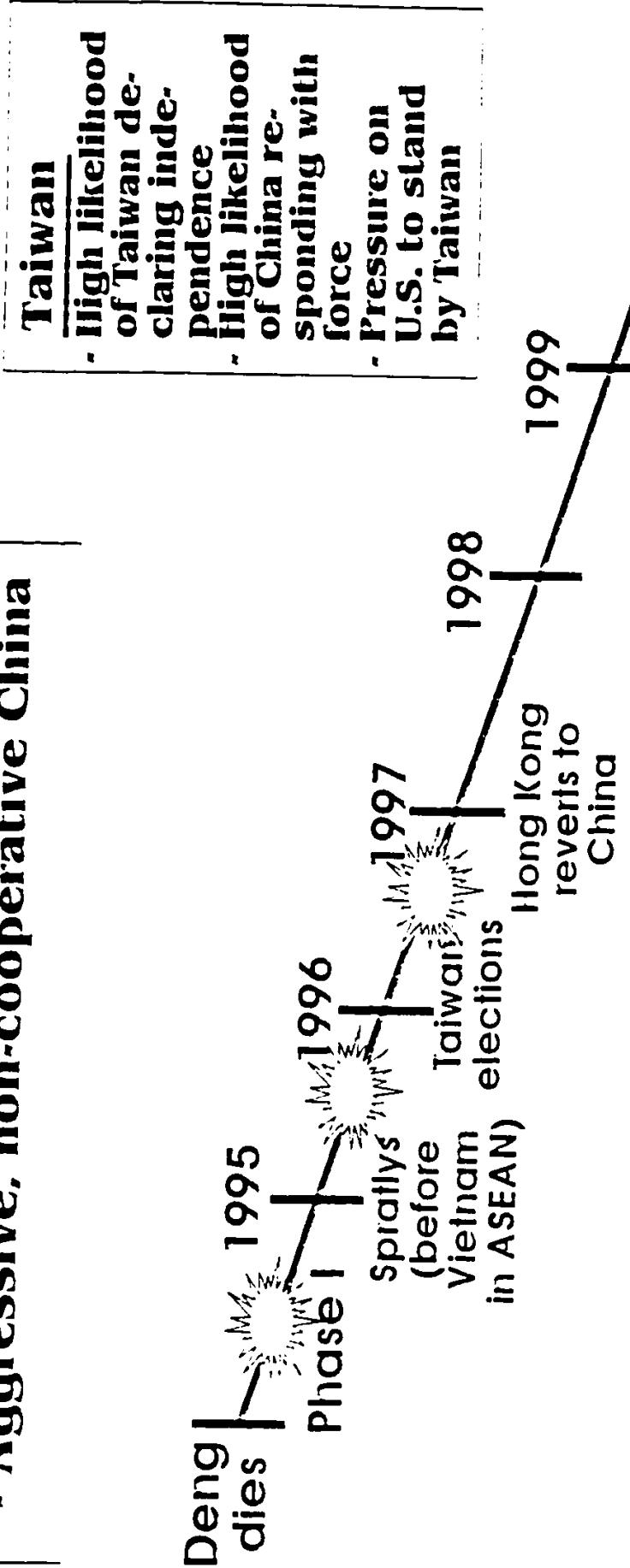
What Prevents This Scenario?

- opposition from the PLA
- economic collapse
- an assassination/comp

NATIONALIST STRONGMAN

Bottom Line:

- Aggressive, non-cooperative China



Taiwan

- High likelihood of Taiwan declaring independence
- High likelihood of China responding with force
- Pressure on U.S. to stand by Taiwan

Other Issues

- Finlandized Mongolia
- Conflict with Kazakhstan
- Adjust borders with Russia
- Active support of Pakistan

Hong Kong

- Hardline, repression

Korea

- Assist DPRK if crisis not resolved
- Oppose U.S. presence on Korean Peninsula

Spratlys

- Attack Vietnam on land

SCENARIOS FOR DISINTEGRATION

The Logic of Chinese Disintegration

If China lost central control, what indicators or benchmarks that would serve as guidelines for how alliances and regionalism would take place? What would the pattern of blocks be? Is there a core region that would dominate? Ethnicity would be a minor factor--over 90% of the 1.2 billion population are Han Chinese. The map on the next page suggests five different ways to consider the possible organizing principles.

The Need for Research: Patterns to Disintegration

The Soviet Union model is no guide to China's disintegration scenarios.

The logic of economic analysis--economic regions suggested by experts or the yellow area picked as an organic economic region by the study group--suggests that income distribution as an indicator of economic interest may have its limits.

Existing military regions and the position of mobile missiles, probably under central military control, cut across lines of economic interests.

SCENARIOS FOR DISINTEGRATION

RUSSIA

MONGOLIA

PAKISTAN

**SOUTH
KOREA**

NEPAL
WEST
INDIA

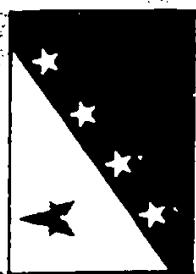
Alternative and Economic Institutions

THE BOSTONIAN.

QUESTIONNAIRES

Economic regions

Strategic Nine Team Developments (open source ref)



940803 (CD)

SUB-SCENARIO: REGIONALISM (D)

"Regionalism" is the first of the final two disintegration sub-scenarios. It is not warlordism and it is not civil war. It is a loose federalist type of situation--a negotiated redistribution of political and economic authority between regional and central powers.

SUB-SCENARIO : REGIONALISM (D)

Leadership Mindset: domestic:

- Local identities/allegiances
- Regional autonomy preferred to civil war

foreign policy:

- Regional ties to foreign areas
- Conflict avoidance

Military:

doctrine: Border defense, control regional breakaway capabilities:

- Central budgets decline
- Poor force coordination
- Weak power projection capability

SUB-SCENARIO: REGIONALISM (D)

Social chaos, while feared by the Chinese leadership, goes with the loss of central control. The implications would be the emergence of a new political and security elite, possibly relying on local organizations and gangs to maintain order. This could mean significant economic instability and the fleeing of foreign investment.

SUB-SCENARIO: REGIONALISM (D)

Social Trends:

- Sense of social chaos
- Gangs and secret societies expand influence

Economic Trends:

- Deepening fiscal crisis in central government
- Regional currencies appear - high inflation
- Regional economic trade ties strengthen

REGIONALISM

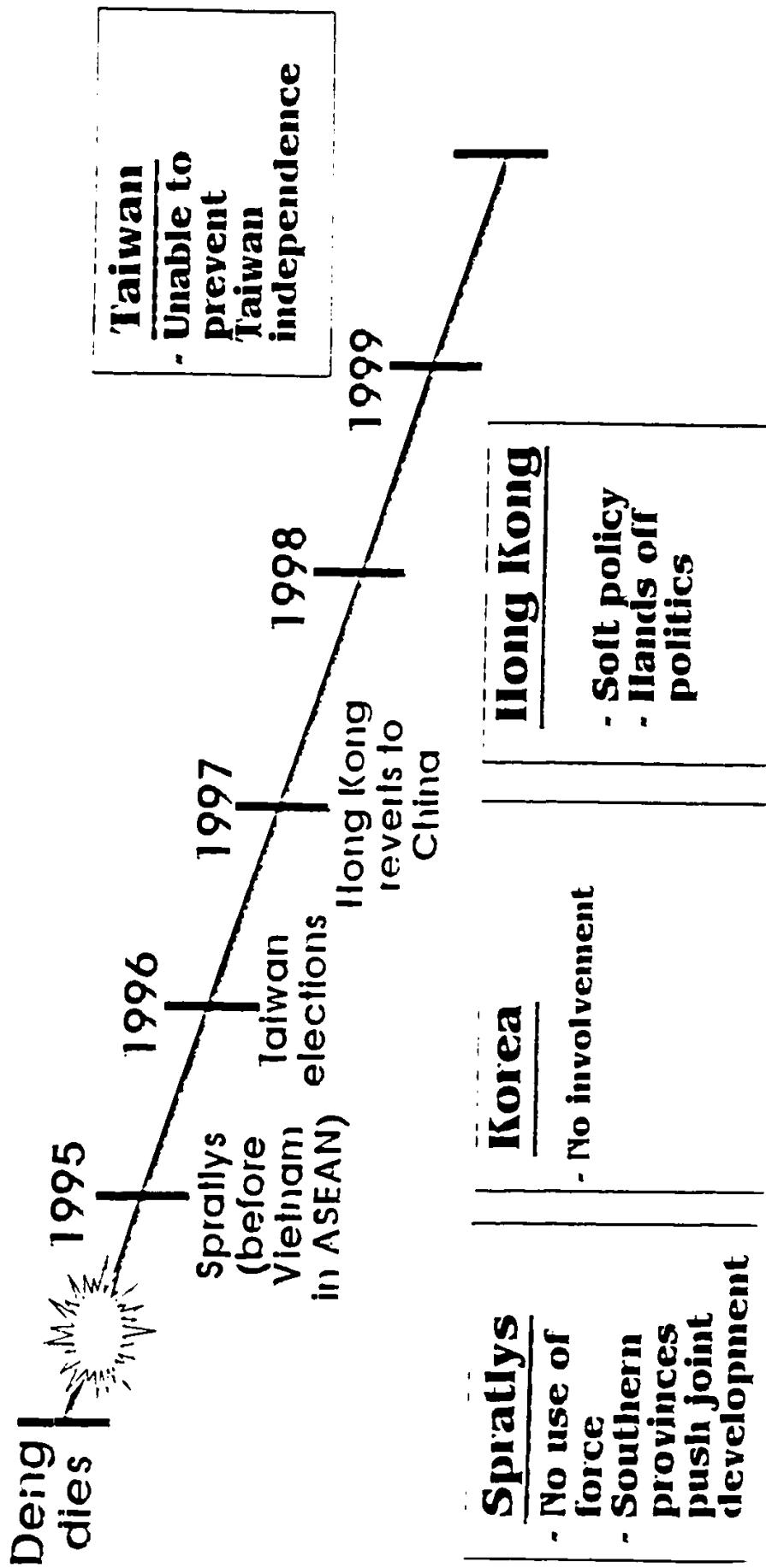
While central power projection capability might be concentrated in a Beijing-Shanghai power axis, local border disputes and regional conflicts are likely to spread as local authorities take policy into their own hands. This creates a "Russia-type" set of local empires, each pursuing independent economic and security policies.

The only trends reversing this scenario are civil war or the rise of a strong central leadership.

REUNIONALISM

Bottom Line:

- Fragmented foreign policy
- Provincial vetoes over foreign economic and security policy



SUB-SCENARIO: TOTAL COLLAPSE (E)

"Total collapse" is the final disintegration sub-scenario. The source of continued disintegration is unresolved factionalism at the center and divisions within the P.L.A.

SUB-SCENARIO : 'TOTAL COLLAPSE (E)

Leadership Mindset: domestic:

- Personal attacks, fear of reprisals
- Attempts to capture military loyalty

foreign policy:

- Paralysis

Military:

doctrine: Local territorial control, protection from local rivals, repel foreign invaders

capabilities:

- Control of nuclear weapons uncertain
- Local weapons purchasing

Sub-SCENARIO III: TOTAL CONTROL (L)

China's Institutional Weaknesses Find Expression

- the political system is **weak**
- the economic system lacks central control mechanisms
- society lacks **organized mechanisms for problem solving**

SUB-SCENARIO III: TOTAL COLLAPSE (E)

Social Trends:

- Sense of chaos and unpredictability surfaces
- Refugees and migrant worker riots

Economic Trends:

- Economic instability
- Corruption and mismanagement of Three Gorges Project
- Drop in foreign investment
- Peasant riots in inland provinces

TOTAL COLLAPSE

Policy paralysis prevails. China is a security threat to US and Japanese investments.

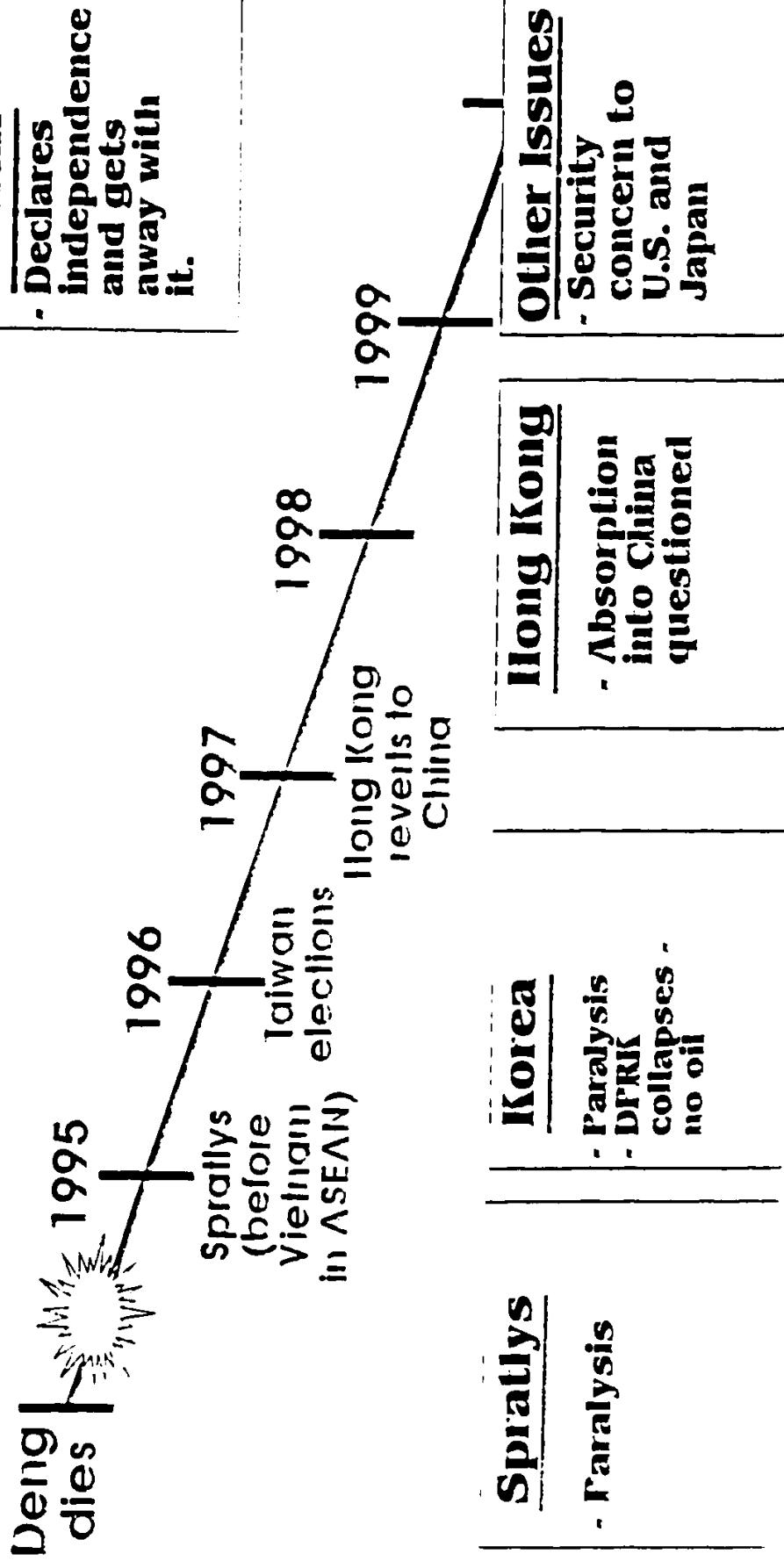
Disintegration leads to a longer-term concern with Chinese national identity and an eventual recentralization of political power.

The only thing preventing this scenario is the rise of a strong central leadership.

IMPERIAL COLLAPSE

Bottom Line:

- Refugee flows
- Weapons proliferation



OBSERVATIONS

Averting Conflict

Prospects are that the United States will deal with several "different" Chinas during the next term and all may present unforeseen and largely unanticipated security threats. Asian situations are also likely to be different from the collapse of communism in Europe. There are several ways (some in place already) that the US can influence China:

- (1) Continue to sustain an Asian military presence.
 - retain the US-Japan security treaty
- (2) Engage China in cooperative economic and security confidence building measures, but not meddle in Chinese domestic affairs.
- (3) Resolve US policy ambiguities on Taiwanese independence and arms sales, and
- (4) Prepare for situations in China by having better information, anticipating multiple scenarios, and monitoring China's goals for world-class military status.

OBSERVATIONS

Under all scenarios, we will be dealing with a China never dealt with before.

Each of the three scenarios presents a different challenge:

- the linear scenario presents an economically and militarily stronger, more assertive China less willing to compromise on issues of interest to the U.S.
- the liberal scenario presents an economically and militarily more powerful China that is less threatening. China has a growing stake in regional and global peace and stability.
- the disintegration scenario can lead to a range of outcomes, the most probable paths ranging from liberal democracy to hyper-nationalism and collapse



OFFICE OF THE SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

DIRECTOR OF NET ASSESSMENT

July 31, 1994

Dear Summer Study Participant,

I am pleased you are joining us for the 1994 Summer Study of the Under Secretary of Defense for Policy.

We have sponsored seven summer studies in August of 1985, 1986, 1988, 1990, 1991, 1992 and 1993. The first six summer studies considered fundamental questions of nuclear strategy; the offense-defense balance; power projection requirements of the Soviet Union and the US; the military balance in Europe; the economic environment as suggested by the Commission on Long Term Strategy; problems of deterrence; future prospects for Japan and Germany; Soviet military reform; alternative world scenarios for the next few decades; DoD core competencies, innovation and long-term defense planning; and the nature of future power relations.

In 1993, we examined three issues. One group focused on inter-state relations in Asia during the next few decades. A second group addressed potential peer competitors in the revolution in military affairs. The third group examined future Russian scenarios.

This year, we will have two study groups. It will be the chairmen of these groups who will give the outbriefs on August 10th. The first group, chaired by Jim Martin of SAIC, will address the problem of planning in uncertain environments. How do we plan without a formidable superpower opponent but with the need to ensure US vital interests over the long term? If we are entering a period of revolution in military affairs, how should we capitalize on this understanding without having a specific opponent in mind? What strategies do businesses take when they are in close competition with others; when they are in dominant positions? Is the Planning, Programming and Budgeting System process and structure still appropriate? What alternatives are there to planning for "contingencies"?

The second group, chaired by Ron Morse of the University of Maryland, will develop alternative future scenarios based on possible changes within China over the next 7 years or so. Given China's very high economic growth, what political, social and military transformations are possible? Should we see China as a single entity with a singular leadership or as a more complex mix of elements?

Toward the end of the first week, the two study group chairmen, with perhaps one or two helpers, will start to prepare briefings which will later be checked by their groups. In the meantime a short study will be formed which will run Saturday morning, all day Monday, and Tuesday morning of the second week. This keeps the people in the two study groups occupied when they are not listening to and reviewing their chairman's presentations. No briefing of the short study will be required, although a record of discussions and a short report of findings will be prepared by the short study co-chairmen. Membership in the short study will be a mix of those serving on the two study groups, with perhaps the addition of a few others.

Two special studies, with restricted membership, will also take place. One special study will update the Russian scenarios developed last year, and the second will focus on the process of building scenarios of future security environments.

We are confident that you will find the summer study interesting and rewarding. I look forward to meeting with you.

Sincerely,



A. W. Marshall

WORKING GROUPS

I. Planning in Uncertain Environments

Members

Jim Martin, Chairman
 Steve Rosen
 Harry Rowen (1-3)
 Chip Pickett
 Jasper Welch (1-6)
 George Kraus
 Aaron Friedberg (1-6)
 Pat Crecine
 Chuck Miller
 Mike Martus
 Steve Cullen
 Tom Linn
 Keith Bickel
 Tom Mahnken
 Paul Davis (2-3)

Visitors

Ted Gold (1-3)
 Mike Duval (2-4)
 Dave Oliver (2-4)
 Max Thurman (2-4)
 Jim Evatt (3-5)
 Eduardo Mestre (5)
 Paul Kaminski (5)

Presenters

Andy Krepinevich (1-2)

II. China in the Near Term

Ron Morse, Chairman
 Arthur Waldron
 Mike Brown
 Iain Johnston
 Yu-Ping Liu
 John Garver (1-6)
 David Zweig (1-6)
 Mike Field
 Lonnie Keene
 Tom Christensen
 Mike Vickers
 Art Corbett
 Mike Pillsbury
 Tom Clark

Robert Suiter (1)
 Gilbert Rozman (1-2)
 Takashi Hoshino (1-4)
 Erland Heginbotham (4-5)

SPECIAL GUESTS

Lionel Tiger, 1-10
 Jake Bussolini, 4-5

STAFF

Andy Marshall, Co-Chairman
 Jim Roche, Co-Chairman
 Tom Welch
 Dmitry Ponomareff
 Pat Curry
 Gienna Hughes
 Ruth Baker